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## BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission

**DOCKETED**

JUN - 5 2009

KRISTIN K. MAYES, Chairman  
 GARY PIERCE  
 PAUL NEWMAN  
 SANDRA D. KENNEDY  
 BOB STUMP

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF  
 ARIZONA ELECTRIC POWER COOPERATIVE,  
 INC. FOR AUTHORIZATION TO INCUR DEBT  
 AND SECURE LIENS IN ITS PROPERTY TO  
 FINANCE ITS CONSTRUCTION WORK PLAN.

DOCKET NO. E-01773A-08-0587

DECISION NO. 71111ORDER

Open Meeting  
 May 27 and 28, 2009  
 Phoenix, Arizona

**BY THE COMMISSION:**

Having considered the entire record herein and being fully advised in the premises, the  
 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

\* \* \* \* \*

**FINDINGS OF FACT**

1. On December 4, 2008, Arizona Electric Power Cooperative, Inc. ("AEPCO" or  
 "Cooperative"), filed an application requesting authority to incur debt and secure liens on its property  
 to finance its Construction Work Plan ("CWP") for 2009-2011.

2. The Cooperative seeks authorization for interim financing in an amount not to exceed  
 \$42.287 million from the National Rural Utilities Cooperative Finance Corporation ("CFC") and  
 long-term financing in an amount not to exceed \$36.032 million from the Rural Utilities  
 Service/Federal Financing Bank ("RUS/FFB"), when it becomes available to replace the CFC interim  
 financing.

3. AEPCO also requests authorization to change the specific facilities to be financed in  
 the CWP without the necessity of filing an amended application so long as the total amount financed  
 does not exceed \$36.032 million for permanent financing or \$42.287 million for interim financing.

4. AEPCO is an Arizona class "A" public service corporation and non-profit, member-owned cooperative, located in Benson, Arizona. AEPCO provides power and energy at wholesale primarily to its six Class A member distribution cooperatives—Anza Electric Cooperative, Duncan Valley Electric Cooperative, Graham County Electric Cooperative, Mohave Electric Cooperative, Sulphur Springs Valley Electric Cooperative and Trico Electric Cooperative—under the terms of all requirements or partial requirements capacity and energy agreements. AEPCO also has contractual agreements with the City of Mesa and the Salt River Project Agriculture Improvement District as Class B members and to Valley Electric Association as a Class D member.

5. On January 20, 2009, AEPCO filed an affidavit of publication verifying that it had notice of its financing application published in *The Arizona Daily Star* and *The Kingman Daily Miner* on December 19, 2008, and in *The Tucson Citizen* on January 8, 2009. *The Arizona Daily Star* and *The Tucson Citizen* are newspapers of general circulation in Pima County, Arizona, and *The Kingman Daily Miner* is a newspaper of general circulation in the City of Kingman, Mohave County, Arizona.

6. On April 10, 2009, the Commission's Utilities Division ("Staff") filed a Staff Report recommending approval of the application.

7. On April 20, 2009, AEPCO filed a Response to the Staff Report indicating the Cooperative had no comment or objection to the Staff Report.

8. AEPCO's current rates were approved in Decision No. 68071 (August 17, 2005).<sup>1</sup>

9. As of December 31, 2007, AEPCO had \$38,180,000 in unused financing authorizations, approved in Decisions Nos. 68065 (August 17, 2005) (\$3,050,000), 69238 (January 19, 2007) (\$29,200,000), and 70398 (July 3, 2008) (\$5,930,000).

10. AEPCO expects the requested interim financing to have a three year term at CFC's variable interest rate. Staff reports the CFC interest rate as of the date of the Staff Report, was 5.4 percent. No pre-payment penalties would apply to the proposed interim CFC financing as long as the interim financing is at CFC's variable interest rate and repaid with the RUS/FFB long-term loan.

<sup>1</sup> The authorized rate increase consisted of three phases, the third phase of which became effective on September 1, 2007.

11. AEPCO expects the RUS/FFB loan terms to have a final maturity date of December 31, 2035. Staff reports the interest rate for a 30-year RUS/FFB loan was 3.61 percent as of March 3, 2009. The applicable interest rate on the RUS/FFB loan will be fixed at the time that each advance is made. AEPCO would draw down the CFC interim financing as needed to proceed with the CWP and repay the CFC interim financing with subsequent FFB advances.

12. AEPCO's 2009-2011 CWP contains projects with a total projected cost of \$83,592,000, of which \$36,032,000 will be financed pursuant to the current requested financing authority, and \$47,560,000, representing two large pollution control projects which will be financed pursuant to a subsequent financing request. The 2009-2011 CWP anticipates the following disbursement schedule:

2009	2010	2011	Total	Current Authority	Other Financing Authority
\$24,171,000	\$30,229,000	\$29,192,000	\$83,592,000	\$36,032,000	\$47,560,000

13. The Commission's Engineering Staff reviewed the Cooperative's CWP for 2009-2011, and concludes that the projects included are appropriate and their associated costs appear to be reasonable. Staff states, however, that its conclusions do not imply a specific treatment for rate base or rate making purposes in the Cooperative's future rate filings.

14. As of December 31, 2007, AEPCO's capital structure consisted of 12.9 percent short-term debt, 63.2 percent long-term debt, and 23.9 percent equity. Staff's financial analysis indicates that a 25-year \$42,287,000 loan, amortized over 25 years, at 5.4 percent per annum, in addition to issuance of a 25-year \$38,180,000 loan at 5.4 percent per annum (representing prior approved financing authority), would result in a pro forma capital structure composed of 10.1 percent short-term debt, 72.0 percent long-term debt and 17.9 percent equity.

15. In Decision No. 68071, the Commission ordered AEPCO to file an equity improvement plan, and not to make any patronage refunds when its equity is below 20 percent of total capitalization, and to limit patronage refunds to 25 percent of net earnings if its equity is between 20 and 30 percent. On June 15, 2006, AEPCO filed an equity improvement analysis that

1 forecasted equity to be 30 percent of total capitalization by the year 2015.<sup>2</sup>

2 16. Staff's analysis shows that for the year ended December 31, 2007, AEPCO had a  
3 Times Interest Earned Ratio ("TIER") of 2.43 and a Debt Service Coverage ("DSC") ratio of 1.34.<sup>3</sup>

4 17. Staff's *pro forma* analysis, assuming the proposed new indebtedness of \$42.287  
5 million for 25 years at 5.4 percent, and the \$38.18 million in previously authorized debt with a term  
6 of 25 years, at 5.4 percent, the Cooperative would have a TIER of 1.82 and DSC of 1.12, based on  
7 December 31, 2007, operating results.

8 18. RUS has a coverage ratio requirement of a minimum TIER of 1.05 and a DSC of 1.00  
9 in two out of three years.

10 19. Staff states that its *pro forma* analysis indicates that projected operating results are  
11 sufficient to meet all obligations and covenants.

12 20. Staff concludes that the issuance of the debt financing for the purposes stated in the  
13 application is within AEPCO's corporate powers, is compatible with the public interest, is consistent  
14 with sound financial practices and will not impair its ability to provide services.

15 21. Staff states that the Cooperative has no compliance issues.

16 22. Staff recommends that:

- 17 a. the Commission authorize AEPCO to incur interim financing in an amount not
- 18 to exceed \$42.287 million from the CFC to finance its 2009-2011 CWP;
- 19 b. the Commission authorize AEPCO to incur long-term financing in an amount
- 20 not to exceed \$36.032 million from RUS/FFB, to replace the CFC interim
- 21 financing;
- 22 c. the Commission approve the Cooperative's request to change the specific

23 <sup>2</sup> In Decision No. 68071, AEPCO's last rate case, it was ordered to file a rate case six months after Sulphur Springs  
24 Valley Electric Cooperative ("SSVEC") completed a calendar year as a partial requirements member ("PRM"). SSVEC  
25 became a PRM on January 1, 2008; therefore, AEPCO is required to file a rate case by July 1, 2009. By letter dated April  
13, 2009, AEPCO requested to extend the date to file its rate case until October 1, 2009.

26 <sup>3</sup> TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater  
27 than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long  
28 term but does not mean that debt obligations cannot be met in the short term. DSC represents the number of times  
internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC  
greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations. A DSC less than 1.0 means that  
debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to  
avoid default.

1 facilities to be financed in the CWP without the necessity of filing an amended  
2 application so long as the total amount financed remains below the financing  
3 amount requested herein, and the Cooperative files in this docket a description of  
4 the project and its cost;

5 d. The Cooperative file in this docket any proposed modifications to the CWP  
6 which cost more than \$500,000, but do not exceed the financing authorizations  
7 granted herein, and unless Staff files an objection to the proposed modifications  
8 within 60 days of AEPCO filing proposed changes, the proposed modifications  
9 be deemed approved for the financing purposes only;

10 e. Any authorization to incur debt granted in this proceeding terminate on  
11 December 31, 2014;

12 f. AEPCO be authorized to engage in any transaction and to execute any  
13 documentation necessary to effectuate the authorizations granted herein; and

14 g. AEPCO should file copies of the executed loan documents with Docket Control  
15 within 30 days of execution.

16 23. Staff's recommendations are reasonable.

17 24. In Decision No. 69238, which approved financing authority for AEPCO's 2006-2008  
18 CWP, the Commission allowed AEPCO to modify facilities within the CWP by filing proposed  
19 changes with Docket Control, and that unless Staff objected to the filing within 30 days, the revisions  
20 would be deemed approved without the need to file an amended application. This process is intended  
21 to save the Cooperative, Staff and the Commission the time and resources associated with a formal  
22 amendment procedure, but still affords the Commission an opportunity to review the proposed  
23 modification. To date, AEPCO has not made use of the process, but it has worked successfully for  
24 AEPCO's affiliate, Southwest Transmission Cooperative. In this case, Staff has requested 60 days to  
25 review any proposed project modifications. We will adopt Staff's proposed minor modification to  
26 the existing process.

### 27 CONCLUSIONS OF LAW

28 1. AEPCO is a public service corporation within the meaning of Article XV of the

Arizona Constitution and A.R.S. §§ 40-301, 40-302, and 40-303.

2. The Commission has jurisdiction over AEPCO and of the subject matter of the application.

3. Notice of the application was given in accordance with the law.

4. The financing as approved herein is for lawful purposes within AEPCO's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by AEPCO of service as a public service corporation, and will not impair AEPCO's ability to perform the service.

5. The financing approved herein is for the purposes stated in the application, is reasonably necessary for those purposes and such purposes are not be reasonably chargeable to operating expenses or to income.

## ORDER

IT IS THEREFORE ORDERED that Arizona Electric Power Cooperative, Inc. is hereby authorized to borrow an amount not to exceed \$42.287 million from the National Rural Utilities Cooperative Finance Corporation for interim financing, as described herein and in the application, and an amount not to exceed \$36.032 million from the Rural Utilities Service/Federal Financing Bank for long-term financing, when available, to replace the approved interim financing.

IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon Arizona Electric Power Cooperative, Inc.'s use of the proceeds for the purposes stated in its application and approved herein.

IT IS FURTHER ORDERED that use of the loan proceeds authorized herein shall be restricted to financing capital improvement projects as described in Arizona Electric Power Cooperative, Inc.'s 2009-2011 Construction Work Plan as that plan may be amended as set forth herein, in an amount not to exceed \$42.287 million for interim financing and \$36.032 million for long-term financing.

IT IS FURTHER ORDERED that the authorization to incur debt granted herein shall terminate on December 31, 2014.

IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. may, without

1 additional Commission approval, use the loan proceeds authorized herein for modifications to the  
2 2009-2011 Construction Work Plan as long as the projects substantially conform to the purposes of  
3 the projects in the Plan and the total amount financed remains below the financing amounts approved  
4 herein. Before implementing any such modification, Arizona Electric Power Cooperative, Inc. shall  
5 file in this docket a description of the project and its cost.

6 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file in this  
7 docket any proposed modifications to the 2009-2011 Construction Work Plan which substantially  
8 conform to the purposes of the 2009-2011 Construction Work Plan and which cost more than  
9 \$500,000, but do not exceed the authorized amount of \$42.287 million for interim financing or  
10 \$36.082 million for long-term financing, and unless Staff files an objection to the proposed  
11 modifications within 60 days of Arizona Electric Power Cooperative, Inc. filing the proposed  
12 changes, the proposed project modifications shall be deemed approved.

13 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. is authorized to  
14 execute any documents necessary to effectuate the authorizations granted.

15 IT IS FURTHER ORDERED that Arizona Electric Power Cooperative, Inc. shall file with  
16 Docket Control, as a compliance item in this docket, copies of all executed financing documents  
17 within 30 days after the date of execution.

18 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not  
19 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
20 proceeds derived thereby for purposes of establishing just and reasonable rates.

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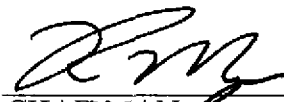
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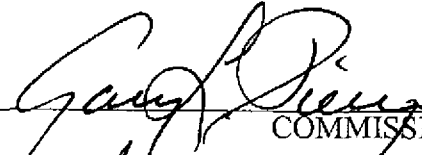
IT IS FURTHER ORDERED that the finance authority granted herein shall be expressly contingent upon Arizona Electric Power Cooperative, Inc.'s use of the proceeds for the purposes stated in its application and approved herein.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.



CHAIRMAN



COMMISSIONER



COMMISSIONER

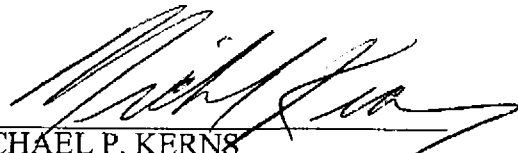


COMMISSIONER



COMMISSIONER

IN WITNESS WHEREOF, I, MICHAEL P. KERNS, Interim Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 5TH day of JUNE, 2009.



MICHAEL P. KERNS  
INTERIM EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

JR:



1 SERVICE LIST FOR: ARIZONA ELECTRIC POWER COOPERATIVE, INC.

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